

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its July 2008 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.6% in 2008, 0.9% in 2009, 3.6% in 2010, and 3.4% in 2011;
- U.S. nonfarm employment grows 0.1% in 2008, 0.0% in 2009, and 1.4% in 2010, and 1.8% in 2011;
- the annual U.S. civilian unemployment rate climbs to a peak of 6.0% next year then gradually declines to 5.2% in 2011;
- consumer inflation is 5.3% in 2008, 3.3% in 2009, 0.5% in 2010, and 1.3% in 2011;
- the current account deficit is \$827 billion in 2008, \$885 billion in 2009, \$799 billion in 2010, and \$813 billion in 2011;
- the federal unified budget deficit is \$412 billion in 2008, \$497 billion in 2009, \$444 billion in 2010, and \$383 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 20% probability of occurrence. Renewed strength in total factor productivity growth provides the key assumption distinguishing this scenario from the baseline. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by reinvigorated innovation in the technology sector. Stronger productivity gains, coupled with renewed optimism, facilitate enhanced business spending and a milder housing contraction. The stimulus package already in the pipeline adds fuel to the fire during the latter half of 2008. Productivity growth remains higher than in the baseline over the next decade, providing for stronger long-term growth, more employment, and lower budget deficits. Combined with a stronger currency, the productivity gains also help to contain inflation. Like its domestic cousin, foreign economic growth is also stronger. This strength helps boost U.S. exports and domestic manufacturing. As a result, real exports rise faster despite the stronger greenback. Finally, this scenario assumes energy prices are lower than in the baseline.

Under these assumptions, the economic outlook is much brighter. After recording 2.3% growth in this year's second quarter, real GDP accelerates to a 3.5% pace in the third quarter—more than twice as fast as in the baseline. As a result, real output shows respectable growth both this year and next in this scenario, while it sputters in the *Baseline Scenario*. Specifically, real GDP advances 2.1% in 2008 and 2.5% in 2009. In the baseline case the measure increases 1.6% in 2008 and 0.9% in 2009. Most significantly, this scenario is the only one of those covered here that avoids a recession during the forecast period.

The stronger national economy pays dividends in Idaho, with both employment and personal income outperforming their baseline counterparts. Total nonfarm employment advances faster in every year of the forecast, so that by 2011 there are about 11,000 more jobs than in the *Baseline Scenario*. The bulk of this increase is the nongoods-producing sector that advances faster over the forecast period, adding about 10,500 jobs to the difference. The remainder is made up of goods-producing employment. Interestingly, Idaho nominal personal income growth outpaces its baseline cousin only in the first two years of the forecast, but this is enough of a head start to enjoy a \$66 million advantage in 2011. After adjusting for inflation, the personal income gap grows much wider because much of the baseline's nominal personal income growth was due to higher inflation.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

JULY 2008

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,360	14,798	15,699	16,559	14,426	15,039	15,904	16,707	14,285	14,503	15,381	16,303
% Ch	3.7%	3.1%	6.1%	5.5%	4.2%	4.2%	5.8%	5.0%	3.2%	1.5%	6.1%	6.0%
2000 Chain-Weighted	11,754	11,860	12,291	12,710	11,813	12,104	12,584	13,012	11,691	11,583	11,930	12,297
% Ch	1.6%	0.9%	3.6%	3.4%	2.1%	2.5%	4.0%	3.4%	1.1%	-0.9%	3.0%	3.1%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,884	50,875	53,769	57,161	48,935	51,185	53,968	57,227	48,867	50,445	52,923	56,119
% Ch	4.1%	4.1%	5.7%	6.3%	4.2%	4.6%	5.4%	6.0%	4.1%	3.2%	4.9%	6.0%
U.S. (Billions)	12,215	12,624	13,298	14,075	12,252	12,813	13,500	14,217	12,200	12,504	13,132	13,975
% Ch	4.7%	3.4%	5.3%	5.8%	5.0%	4.6%	5.4%	5.3%	4.6%	2.5%	5.0%	6.4%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	39,918	40,274	42,116	44,143	40,149	41,126	43,022	45,108	39,785	39,494	40,718	42,219
% Ch	0.0%	0.9%	4.6%	4.8%	0.5%	2.4%	4.6%	4.8%	-0.4%	-0.7%	3.1%	3.7%
U.S. (Billions)	9,975	9,994	10,416	10,870	10,052	10,295	10,762	11,206	9,933	9,789	10,104	10,513
% Ch	0.5%	0.2%	4.2%	4.4%	1.3%	2.4%	4.5%	4.1%	0.1%	-1.4%	3.2%	4.1%
TOTAL NONFARM EMPLOYMENT												
Idaho	655,149	659,866	672,351	690,885	656,099	666,612	682,363	701,959	654,205	651,521	655,679	667,140
% Ch	-0.2%	0.7%	1.9%	2.8%	0.0%	1.6%	2.4%	2.9%	-0.3%	-0.4%	0.6%	1.7%
U.S. (Thousands)	137,726	137,662	139,538	142,067	138,280	140,590	143,344	145,507	137,397	136,128	137,365	139,849
% Ch	0.1%	0.0%	1.4%	1.8%	0.5%	1.7%	2.0%	1.5%	-0.2%	-0.9%	0.9%	1.8%
GOODS-PRODUCING SECTOR												
Idaho	114,666	109,790	109,904	112,156	114,692	110,722	110,885	112,630	114,271	106,584	105,614	107,665
% Ch	-7.1%	-4.3%	0.1%	2.0%	-7.0%	-3.5%	0.1%	1.6%	-7.4%	-6.7%	-0.9%	1.9%
U.S. (Thousands)	21,489	20,841	20,627	21,012	21,504	21,208	21,379	21,740	21,474	20,426	19,842	20,140
% Ch	-3.3%	-3.0%	-1.0%	1.9%	-3.2%	-1.4%	0.8%	1.7%	-3.4%	-4.9%	-2.9%	1.5%
NONGOODS-PRODUCING SECTOR												
Idaho	540,483	550,076	562,448	578,729	541,407	555,890	571,478	589,329	539,935	544,937	550,065	559,475
% Ch	1.4%	1.8%	2.2%	2.9%	1.6%	2.7%	2.8%	3.1%	1.3%	0.9%	0.9%	1.7%
U.S. (Thousands)	116,237	116,821	118,911	121,055	116,776	119,382	121,965	123,767	115,923	115,703	117,523	119,709
% Ch	0.7%	0.5%	1.8%	1.8%	1.2%	2.2%	2.2%	1.5%	0.5%	-0.2%	1.6%	1.9%
SELECTED INTEREST RATES												
Federal Funds	2.3%	2.4%	4.3%	4.8%	2.3%	2.3%	3.8%	4.5%	2.5%	3.6%	5.6%	6.0%
Bank Prime	5.3%	5.4%	7.3%	7.8%	5.3%	5.3%	6.8%	7.5%	5.5%	6.6%	8.6%	9.0%
Existing Home Mortgage	6.1%	5.9%	6.9%	7.2%	6.0%	5.5%	6.4%	6.9%	6.4%	7.0%	7.9%	8.0%
INFLATION												
GDP Price Deflator	2.1%	2.1%	2.4%	2.0%	2.1%	1.7%	1.7%	1.6%	2.1%	2.5%	3.0%	2.8%
Personal Cons Deflator	4.2%	3.1%	1.1%	1.4%	3.6%	2.1%	0.8%	1.1%	4.5%	4.0%	1.8%	2.3%
Consumer Price Index	5.3%	3.3%	0.5%	1.3%	4.5%	2.1%	0.5%	1.0%	5.7%	4.2%	1.1%	2.0%

Forecast Begins the SECOND Quarter of 2008

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. This scenario assumes the housing recession deepens even more than in the baseline and the price of oil shoots above \$160 per barrel this summer. This fatal combination sends the economy into a full-blown recession. Despite the effects of the stimulus package, real GDP tumbles. After the impact of the stimulative monetary and fiscal policies wear off, the economy contracts over two additional quarters. Peak to trough, real GDP shrinks 1.7% during these three quarters (2008:3 to 2009:1). Like the recessions of 1991 and 2001, this one is still mild compared with earlier postwar recessions. Unlike the past two recessions, however, the economy remains on the ropes longer and emerges from the downturn weaker, facing more troubles ahead.

On an annual basis, real output increases a meager 1.1% in 2008 and contracts by 0.9% in 2009. In comparison, real GDP is forecast to rise 1.6% this year and 0.9% next year in the *Baseline Scenario*. Employment drops for seven straight quarters (losing two million jobs) and industrial production falls in five of six quarters. Over the longer term, real GDP advances slower than in the *Baseline Scenario*, mainly because productivity advances only 1.5% annually over the next ten years, compared with the baseline's 2.0% pace. Inflation is higher in the *Pessimistic Scenario* because of the slower productivity growth and the weaker dollar. It also reflects the Federal Reserve's policy to live with 3.0% inflation rather than risk another recession by trying to bring it lower.

Ripples from the weaker national economic growth cause the state's economy to experience sub-par growth over the forecast period. Most notably, Idaho nonfarm employment grows much slower, causing it to be about 23,700 lower than in the baseline. Employment actually falls during the first two years of the forecast before eking out meager gains in 2010 and 2011. The goods-producing sector is particularly hard hit, posting losses through 2010. As with employment, Idaho nominal personal income growth is also weaker in each year of the forecast. The combination of weak growth and higher inflation causes Idaho real personal income to retreat in both 2008 and 2009. Given this bad start, it is no surprise it is about \$1.9 billion lower in 2011 than in the *Baseline Scenario*.